CONFORMING AND SUPER CONFORMING UNDERWRITING GUIDELINES

3:1 INTRODUCTION

BB&T Correspondent Lending expects its Correspondents to be fully familiar with mortgage underwriting secondary marketing requirements, and to keep abreast of industry changes that impact residential mortgages. This section is designed for two purposes:

- To supplement information referred to in the Conforming/Super Conforming Product Description sections.
- To clarify BB&T's exceptions, allowances and restrictions regarding specific underwriting issues.

In general, BB&T follows current standard Freddie Mac published guidelines for Conforming and Super Conforming loans. The **Freddie Mac Seller/Servicer Guide** may be accessed free of charge at **http://www.freddiemac.com/singlefamily/index.html?intcmp=SFMAIN-T.**

The Freddie Mac Loan Prospector Documentation Matrix (www.freddiemac.com/learn/pdfs/uw/docmatrix.pdf) and the Freddie Mac Rental Income Matrix (www.freddiemac.com/learn/pdfs/uw/rental.pdf) serve as references for documentation of Loan Prospector loans.

The **Fannie Mae Selling and Servicing Guides** may be accessed free of charge at https://fanniemae.com/content/guide/selling/index.html

Manual underwrites are not permitted on any Conforming loan without prior BB&T Correspondent Underwriting authorization. Manual underwrites are not accepted on Super Conforming loans.

BB&T policy applies to both Conforming and Super Conforming loan amounts unless otherwise specified. Questions regarding specific underwriting issues can be directed to BB&T Correspondent Lending Information Central (CLIC).

ALL CONVENTIONAL LOANS MUST FIRST ADHERE TO BB&T CORRESPONDENT LENDING REQUIREMENTS STATED IN BB&T'S OPERATIONS AND PRODUCT GUIDE.

The next sub section in this section provides specific information on the expectations of utilizing Freddie Mac's Loan Prospector and Fannie Mae's Desktop Underwriter. The last sub-section in this section lists transactions that are ineligible for financing through BB&T Correspondent Lending. References in the Documentation Matrix and Rental Income Matrix to "Caution (not A-Minus eligible)" and "Manufactured Housing" do not apply as BB&T Correspondent Lending does not allow them.

3:2 LOAN PROSPECTOR (LP) FEEDBACK RESPONSES

BB&T Correspondent Lending accepts conventional loans with either LP Accept or LP A-Minus ratings on Conforming loans and LP Accept on Super Conforming loans. Correspondents are reminded that credit score and debt ratio limits may impact the decision returned by LP.

Loans receiving an approval through LP where the AUS has been customized for a specific Lender are ineligible for delivery to BB&T Correspondent Lending.

AUS switching prior to the Note Date (LP to DU or DU to LP) is unacceptable.

Loans may be resubmitted to LP after the Note Date, or the Effective Date of Permanent Financing, and prior to delivery to BB&T Correspondent Lending.

Loans must continue to be initially submitted to LP on or before the Note Date, or the Effective Date of Permanent Financing.

Detailed requirements for resubmitting loans to LP are in the Freddie Mac Seller/Servicer Guide.

Correspondent must select "Post Closing Quality Control" as the Loan Processing Stage

A loan cannot be resubmitted to LP after the Note Date or the Effective Date of Permanent Financing, if:

- Resubmission is more than 120 days after the "Loan Prospector Assessment Expiration Date" displayed on the Feedback Certificate in effect as of the Note Date; or
- A Borrower is being added or deleted, or a change is being made to a Borrower's last name or Social Security Number; or
- A new credit report company needs to be selected; or
- The single or joint merged credit report indicator changes; or
- The order of Borrowers changes on a joint merged credit request; or
- The merged credit report number does not match the merged credit report number from the most recent complete transaction.

If the loan cannot be resubmitted to LP after the Note Date, or the Effective Date of Permanent Financing, the loan is not eligible for sale to BB&T Correspondent Lending.

3:3 DESKTOP UNDERWRITER (DU) FEEDBACK RESPONSES

BB&T Correspondent Lending accepts conventional loans with DU Approve/Eligible ratings on Conforming loans and Super Conforming loans. Correspondents are reminded that credit score and debt ratio limits may impact the decision returned by DU.

Loans receiving an approval through DU where the AUS has been customized for a specific Lender are ineligible for delivery to BB&T Correspondent Lending.

AUS switching prior to the Note Date (LP to DU or DU to LP) is unacceptable.

Conforming and Super Conforming mortgages with DU Approve/Eligible are to be documented in accordance with Fannie Mae requirements pertaining to credit underwriting (including credit reputation and capacity to repay) and property valuation and comply with Freddie Mac requirements for all matters other than credit underwriting and property valuation. Fannie Mae's Selling and Servicing Guides may be accessed free of charge at https://fanniemae.com/content/guide/selling/index.html

- Each Conforming DU Mortgage must:
  - be evaluated using the version of DU that Fannie Mae requires for such Mortgage to be eligible for sale to Fannie Mae;
  - receive an Approve/Eligible Underwriting Recommendation;
  - be a 10-, 15-, 20-, or 30-year fixed rate mortgage;
  - be a 3/1, 5/1, 7/1, 10/1 P&I ARM;

- Each Super Conforming DU Mortgage must:
  - be evaluated using the version of DU that Fannie Mae requires for such Mortgage to be eligible for sale to Fannie Mae;
  - receive an Approve/Eligible Underwriting Recommendation;
  - be a 10-, 15-, 20-, or 30-year fixed rate mortgage;
  - be a 5/1 P&I ARM;
  - have an original principal balance not exceeding $1 million;
  - have no financed mortgage insurance;
  - have a maximum DTI of 45%; and
  - comply with additional guidelines within this guide and specific product description.

- DU Mortgages originated with provisions negotiated with Fannie Mae to be less restrictive than DU guide requirements are not allowed.

- The LTV/TLTV/HTLTV must not exceed the most restrictive of the maximum LTV/TLTV/HTLTV ratios allowed by:
  - Freddie Mac requirements (Seller/Servicer Guide Maximum LTV, TLTV, and HTLTV ratios), or
  - Fannie Mae requirements (Seller Guide B2-1.1 LTV, CLTV, HCLTV, and Subordinate Financing)

- Loans must comply with the following documentation requirements relating to credit reputation, capacity to repay, and property valuation as of the date of the Note or for Construction Conversion mortgages, the effective date of permanent financing:

  - <u>Existing and New Construction</u>
    - Credit documents are to be no older than 4 months
    - Appraisals are to be no older than 4 months

  - If the age of the valuation or other collateral documentation exceeds the maximum permitted above, the appraisal is outdated and the documentation must comply with requirements in Freddie Mac Seller/Servicer Guide.

  - If the date of the appraisal is more than 12 months before the Note Date, the file must contain a new appraisal and must not incorporate any prior appraisal.

- If the DU Report states an appraisal is not required or that a DU Property Inspection Waiver (PIW); Exterior-Only Inspection Residential Appraisal Report Form 2055; Exterior-Only Inspection Individual Condominium Unit Appraisal Report Form 1075; or a DU Property Inspection Report Form 2075 is allowed,
  - the file **<u>must</u>** contain an appraisal with an interior and exterior inspections (Forms 1004, 1025, 1073)

- If the borrower is receiving gift funds or a gift of equity, a fully executed gift letter is required regardless of LTV and/or LP/DU feedback.

- If the borrower is receiving a gift of equity, the Closing Disclosure listing the gift of equity is required.

- Minimum borrower contribution requirements from borrower's own funds per LP or DU.

- If the DU Report does not require the Borrower's income and/or assets to be verified and/or documented, then, the file must be documented in accordance with Freddie Mac Streamlined Accept Documentation.

- If the Fannie Mae guidelines require the establishment of value of the Borrower's current primary residence because;
  - the Borrower is purchasing a new primary residence,
  - the Borrower's current primary residence is on the market and the sale will not close before the Note Date, or
  - the Borrower is converting the primary residence to a second home or investment property,

  then, the value must be established and evidenced by at least Form 2055, Exterior Only Inspection.

- Loans must comply with the following Freddie Mac mortgage insurance requirements:
  - standard mortgage insurance, or
  - financed mortgage insurance must comply with the following:
    - the Base LTV must not exceed 95%;
    - the Gross LTV must not exceed 95%;
    - property must be a 1-unit primary residence or a second home;
    - the amount of coverage must meet the standard coverage level requirements using the Base LTV;
    - the mortgage insurance premium must be paid with a single-premium payment.

- Maximum allowable number of financed properties:
  - If the subject property is a **primary residence**, there is no limit on the number of financed properties the borrower may own and/or be obligated.
  - If the subject property is a **second home or investment property**, each borrower individually and all borrowers collectively must not own and/or be obligated on more than **four** 1-4 unit financed properties, including the subject property. **NOTE**: 1-4 unit financed properties titled as a LLC **must** be included when determining borrower eligibility and the maximum allowable number of financed properties; and
  - See "Non-Arms Length Transactions" for additional details.

- The following property types must comply with Freddie Mac requirements:
  - Condominiums
  - Leasehold estates
  - Restricted units
  - PUDs
  - Higher-Priced Mortgage Loans (HPMLs)

- DU Mortgages secured by manufactured housing are not eligible to be delivered to BB&T.

- If DU Mortgage is a Construction Conversion mortgage, the Borrower must own the land in fee simple or have a leasehold estate prior to the beginning of construction. The Borrower may have acquired the land through a purchase, inheritance, gift or divorce settlement.

- The following documentation must be maintained in the loan file in addition to complying with requirements specified in the Freddie Mac Seller/Servicer Guide:
  - DU Report
  - DU Underwriting Analysis Report,
  - Any documents required to satisfy conditions in the DU Report, and
  - Any other documents required under this DU provision throughout the Guide.

3:4 AGE OF CREDIT DOCUMENTS AND APPRAISALS

- LP loans – follow Freddie Mac guidelines
- DU loans – follow Fannie Mae guidelines

Re-use of an existing appraisal for a subsequent refinance is not permitted. A new appraisal must be ordered for each mortgage transaction.

Please refer to the Overlay and Allowances Matrix: Conventional Conforming and Super Conforming for any applicable overlays.

3:5 LTV/TLTV/HTLTV

- LP and DU loans – refer to BB&T's Price Adjustments and LTV Charts

3:6 LOAN AMOUNTS

- Conforming Loans (LP or DU) – refer to specific product descriptions for details
- Super Conforming Loans (LP or DU)
    - Refer to specific product descriptions for details
    - Loans may not have an original principal balance exceeding $1 million

3:7 MINIMUM CREDIT SCORE

- Conforming Loans (regardless of LP or DU):
  - Purchase and No Cash Out Refinance Transactions: 640
  - Cash Out Refinance Transactions: 660

- Super-Conforming (regardless of LP or DU):
  - Purchase and No Cash Out Refinance Transactions:
    - 1 unit Primary Residence LTV/TLTV > 75%: 700
    - 1 unit Primary Residence LTV/TLTV <= 75%: 680
    - 2-4 unit Primary, Second Homes & 1-4 Investment, All LTV/TLTV's: 740
  - Cash Out Refinance Transactions: 740

Reference the Price Adjustments and LTV Charts for minimum credit score requirements on specific product/loan types.

RESCORING AND CREDIT REPAIR

- Legitimate corrections to a borrower's credit profile are acceptable, i.e. John Doe Jr.'s derogatory credit is reflected on John Doe Sr.'s credit report.
- In order to ensure the accuracy of the information, corrections should be made at the credit repository level.
- Any supporting documentation sent to the credit repositories along with all copies of credit reports should be maintained in the Correspondent's loan file and included with the file submission when delivered to BB&T Correspondent Lending.

The use of credit repair vendors who assist borrowers to falsely repair their credit by the manipulation of data contained in the borrower's credit profile to improve credit scores for purposes of loan eligibility, pricing/fee improvement and creditworthiness is expressly prohibited by BB&T Correspondent Lending.

It is at BB&T Correspondent Lending's discretion to determine if the credit history and credit scores are legitimate, acceptable and meet guideline requirements.

Credit Score Indicator

The term **Loan Score** refers to the overall score using the Agencies' "middle/lower, then lowest" credit score selection methodology. It is equivalent to Freddie Mac's Indicator Score and Fannie Mae's Representative credit score.

Credit Score Selection

The following criteria may be used to determine each individual borrower's Credit Score using the "middle/lower" method:

- If there are **three valid scores** for a borrower, the **middle score** (numerical middle of the three scores) is used.
- If there are **three valid scores** for a borrower but **two of the scores are the same**, the **duplicate score** is used.
- If there are **two valid scores** for a borrower, the **lower of the two scores** is used.
- If there is **one valid score** for a borrower, **that score** is used.

Loan Score Selection

After selecting the appropriate Credit Score for each borrower, the Loan Score must be determined.

- If there is more than one borrower, the lowest selected Credit Score among all borrowers is the Loan Score.
- When there is only one borrower, the selected Credit Score for that borrower is also the Loan Score.

3:8 BORROWER ELIGIBILITY

LIVING TRUST

Follow respective Agency's guidelines, Freddie Mac or Fannie Mae.

Correspondent must submit a completed "Living Trust Certification" with the delivery package. The certification is available on the website

NON-ARMS LENGTH TRANSACTIONS

Non-Arms length transactions are purchase transactions in which there is a relationship or business affiliation between the borrower and the builder, developer, or seller. BB&T Correspondent Lending will allow non-arms length transactions for the purchase of newly constructed or existing properties secured by a primary residence, and existing properties secured by second homes. Investment properties are ineligible.

If a borrower has a business affiliation (any ownership interest or employment) with the builder, developer or seller of the property, additional due diligence including, but not limited to, detailed information regarding unsold builder/developer inventory held individually and/or through his or her business (LLC's, DBA's, etc.) is required to determine the legitimacy of the transaction.

LOANS TO BUILDERS/DEVELOPERS

See "Non-Arms Length Transactions" section for details.
BB&T Correspondent Lending will not fund loans where the builder/developer is purchasing or refinancing their current unsold inventory.

USA PATRIOT ACT

The Correspondent is required to comply with all aspects of the USA PATRIOT ACT. Due to the nature of the law and severity of penalties associated with non-compliance, BB&T strongly urges the Correspondent adopts procedures to insure that their staff fully complies with the requirements of the Act and that Correspondent files are properly documented. For additional information concerning the USA PATRIOT ACT, Correspondents should contact their regulatory agency or access information via the web at www.bankersonline.com.

NON-U.S. CITIZENS

BB&T has adopted the following policy for extending mortgage loans to non-U.S. Citizens. USA Patriot Act documentation is required in addition to the following guidelines. A non-U.S. Citizen who is lawfully residing in the U.S. as a permanent or non-permanent resident alien is eligible for a mortgage on the same terms as a U.S. Citizen. BB&T does not differentiate between U.S. Citizens, permanent resident aliens and non-permanent resident aliens for general underwriting guidelines.

- All permanent resident aliens must provide their valid Permanent Resident Card.
- All non-permanent resident aliens must provide evidence of a valid, unexpired visa. Evidence must be included in closed loan file. Visas granting diplomatic immunity or Foreign Nationals are not allowed.
- BB&T requires sufficient documentation that the borrower is lawfully residing in the U.S., as a permanent or non-permanent resident alien.
- To obtain a valid AUS response, a Social Security Number is required. An ITIN is not eligible in obtaining a valid AUS response.
- Non-U.S. Citizens will not be accepted under manual underwriting guidelines.
- Borrowers must qualify on U.S. credit; U.S. reported income, U.S. assets, and U.S. residency history.

(Continued next page)

- All standards for determining stable monthly income, adequate credit history, and sufficient liquid assets must be applied in the same manner to each borrower including borrowers who are non-permanent resident aliens.

- For non-permanent resident aliens, BB&T requires the loan to be fully documented in accordance with standard LP or DU guidelines regarding income, assets, credit and residency.

- For non-permanent resident aliens who work for an International Organization (i.e., Red Cross, UNICEF, World Bank, etc.), BB&T requires a copy of the most recent year's tax transcript evidencing "no record of return filed". For these borrowers who do not report income to the IRS, BB&T will not allow their income to be "grossed up" for qualifying purposes.

PROPERTIES CURRENTLY OR FORMERLY IN THE NAME OF AN LLC

If a property is currently in the name of borrower's LLC or has been in the name of the borrower's LLC in the most recent six month period, as measured backward from the date of the initial application, it is not eligible for refinancing into the borrower's name. If there is an outstanding lien against the property, it also must be in the borrower's name for a minimum of six months in order to be refinanced.

SIGNIFICANT ADVERSE OR DEROGATORY CREDIT/WAITING PERIODS

Unless otherwise noted below, follow respective Agency's guidelines, Freddie Mac or Fannie Mae.

Short Sale

If evidence of a short sale is disclosed on a credit report or contained elsewhere in the mortgage file, the following Freddie Mac requirements for handling significant adverse or derogatory information caused by extenuating circumstances and financial mismanagement related to short sales must be met.

Significant Derogatory Event	Recovery Time Periods for Reestablishment of Credit with Financial Mismanagement	Recovery Time Periods for Reestablishment of Credit with Extenuating Circumstances
Short Sale	48 months from completion date	24 months from completion date
	Additional Requirements	Additional Requirements
	Whenever the Borrower has had a previous short sale within the last seven years, the mortgage must either be: • A purchase transaction secured by a primary residence with a maximum LTV/TLTV/HTLTV ratio of the lesser of 90% or the maximum LTV/TLTV/HTLTV ratio for the transaction, or • A no cash out refinance that meet the requirements of the Freddie Mac Seller/Servicer Guide. Additionally, the Mortgage file must contain evidence of the completion of the short sale.	Whenever the Borrower has had a previous short sale within the last seven years, the mortgage must either be: • A purchase transaction secured by a primary residence with a maximum LTV/TLTV/HTLTV ratio of the lesser of 90% or the maximum LTV/TLTV/HTLTV ratio for the transaction, or • A no cash out refinance that meet the requirements of the Freddie Mac Seller/Servicer Guide. Additionally, the Mortgage file must contain evidence of the completion of the short sale.

3:9 EMPLOYMENT AND INCOME

Unless otherwise noted below, follow LP or DU. ***However***, if the DU Report does not require the Borrower's income to be verified and/or documented, the file must be documented in accordance with Freddie Mac Streamlined Accept Documentation.

PAYSTUBS
Per LP or DU findings

TAX RETURNS

Self-Employed Borrowers

- Tax returns filed by Borrower or licensed CPA are acceptable.
- Amortization may be added back when calculating income for the Self-Employed Borrower pursuant to the calculations on Income Analysis Form 91.
- For LP and DU – follow income guidelines for personal and business tax returns.
- Personal tax returns – Borrower signature not required.
- Business tax returns – Borrower signature ***required***.
- Federal tax return extensions will be allowed up to August 31st. A copy of extension is required. Tax return extensions **will not** be allowed for loans closed (note date) after August 31st, regardless of the Federal extension deadline.
- If the Borrower/licensed CPA has filed the tax return, but the tax transcripts are not yet available and the underwriting date is before ***August 31st***, the following must be provided:
  - Salaried Borrowers who have income relied on sources reported on tax returns:
    - Copy of tax transcript showing "no record of return filed",
    - Previous years' tax return and tax transcript, **AND**
    - The filed tax return verified in one of the following ways:
      - Officially stamped by the IRS as received
      - Evidence that the return was electronically received, **OR**
      - Evidence of a refund check or payment made.
  - Self-Employed Borrower:
    - Copy of tax transcript showing "no record of return filed",
    - Previous 2 years' tax transcripts,
    - Previous years' tax return, **AND**
    - The filed tax return verified in one of the following ways:
      - Officially stamped by the IRS as received
      - Evidence that the return was electronically received, **OR**
      - Evidence of a refund check or payment made.

IRS FORM 4506-T

IRS 4506-T and Official Tax Returns Transcripts are important tools for not only income qualification, but also fraud deterrence, documentation validation, and data integrity confirmation. By requiring this earlier in the process, BB&T hopes this will protect our valued clients, as well as BB&T's interest, by identifying issues prior to closing.

IRS 4506-T REQUIREMENT

- The requirement for a completed, signed, and dated IRS 4506-T form applies to **ALL** loans.
- The 4506-T form is to be dated as of the date of loan application and at loan closing.
- The 4506-T form is required whether or not the borrowers are employed.
- The 4506-T form is required whether or not the loan is income qualifying.

TAX TRANSCRIPTS

- The most recent available IRS tax return transcript requirement applies to every loan, regardless of the loan type or borrower's income source.
- The official tax return transcript is required on each borrower.
- The official tax return transcript is required even if tax returns are NOT required for loan qualification.

VERBAL VERIFICATION OF EMPLOYMENT (VOE)

The following options are permitted for Salaried Borrowers:

- Verbal Verification of Employment (VOE) dated no more than 10 business days prior to the Note Date; or
- Verbal Verification of Employment (VOE) dated after the Note Date, but prior to delivery to BB&T for funding.

Note:

- *In lieu of a Verbal VOE, a Leave and Earning Statement (LES) dated **not more than 30 days** prior to the note date may be provided. A LES can be used as a replacement for a Verbal VOE for only active duty or reserve **military** personnel. A LES may **not** be used as a substitute for a Verbal VOE for non-military employees, such as Civil Service employees or Department of Defense contract employees.*
- *Loans originated utilizing "Qualifying income commencing after the Note Date/Employment Contracts or Offers of Employment" must follow the requirements as stated below in this section of the Conforming and Super Conforming Underwriting Guidelines.*

VERIFICATION OF EXISTENCE OF BUSINESS

The following options are permitted for Self-employed Borrowers:

- Verification of existence of business from a third-party source no more than 30 calendar days prior to the Note Date; or
- Verification of existence of business from a third-party source after the Note Date, but prior to delivery to BB&T for funding.

FOREIGN INCOME

All U.S. Citizens using foreign income to qualify must document income with the following:

- Two years signed U.S. federal tax returns
- Standard income documentation (YTD paystubs, 2 years W-2's. etc.)
- All income translated into U.S. Dollars (i.e. paystubs).

QUALIFYING INCOME COMMENCING AFTER THE NOTE DATE/EMPLOYMENT CONTRACTS OR OFFERS OF EMPLOYMENT

The calculation of the Borrower's Stable Monthly Income and documentation of the amount in the Mortgage file may include income from a future salary increase or income from future employment provided that:

- **Income received from a salary increase (LP approval required):**
  - The borrower's employer verifies in writing the amount and effective date of that salary increase and the documentation is retained in the Mortgage file.
  - The effective date of the salary increase is not more than **90** days after the Note Date.
  - No more than 10 Business Days prior to the Note Date, or after the Note Date but prior to delivery to BB&T for funding, the Seller obtains a verbal verification of employment (VOE) that meets the requirements of the Freddie Mac Seller/Servicer Guide.

- **Income from future employment (LP approval required):**
  - The borrower's employment offer must be non-contingent and the non-contingent offer letter must be retained in the Mortgage file.
  - The borrower's written acceptance of the employment offer must be retained in the Mortgage file.
  - The time period between the Mortgage Note Date and the commencement of employment (the employment gap) must not exceed **90** days.
  - Each Mortgage must be a purchase transaction Mortgage secured by a 1-unit Primary Residence.
  - The borrower must have adequate cash reserves after the Note Date to pay the monthly housing expense during employment gap plus one additional month.
  - The Seller is not required to obtain a verbal (VOE) in connection with the borrower's future employment.

- **Income from future employment (DU approval required – B3-3.1-09):**
  - The borrower's income and employment history must be documented according to Fannie Mae guidelines (B3-3.1-01).
  - The borrower's employment offer or contract for future employment and anticipated income must be retained in the Mortgage file.
  - A paystub supporting the income used to qualify the borrower must be obtained prior to delivery of loan to BB&T for funding. The paystub must be retained in Mortgage file.

OTHER INCOME

Unless otherwise noted below, follow LP or DU:

- ***Freddie Mac***: See Freddie Mac Seller/Servicer Guide.
- ***Fannie Mae***: See Fannie Mae Selling Guide Section B3-3.1-09.

Mortgage Credit Certificates (MCC) – The amount of the MCC tax credit is to be added to qualifying income (not deducted from the monthly housing expense). The amount used as qualifying income cannot exceed the maximum Mortgage interest credit permitted by the IRS.

Use the following calculation when determining the available income:
[(Mortgage Amount) x (Note Rate) x (MCC %)] divided by 12 = Amount added to borrower's monthly income

File must contain a copy of the MCC, copy of the Form IRS W-4 "Employee's Withholding Allowance Certificate" and Worksheet, and MCC Worksheet.

Note: For each loan involving a Mortgage Credit Certificate (MCC), Correspondent is in compliance with all requirements of the MCC's issuing authority including all required reporting to the IRS.

RENTAL INCOME

Two year history of managing investment properties is required in order to utilize the income from subject investment property and other investment properties owned by the Borrower for qualifying purposes.

SCHEDULE F INCOME

Loans subject to Schedule F Income will be considered on a case-by-case basis. If Schedule F Income is reflected on the IRS tax transcripts, the actual Schedule F must be reviewed for the existence of leases and true gross income. Schedule F income on the subject property indicates there may be non-residential use of the subject property and represents higher risk. Therefore, both the property and the income will be analyzed for acceptability. Any Schedule F income reflected on tax returns is not allowed as qualifying income if it is a gain. A loss will be deducted from qualifying income.

SECTION 8 INCOME

- ***Freddie Mac***: See Freddie Mac Seller/Servicer Guide for additional information.
  - Homeownership Voucher Program payments (formerly referred to as Section 8 homeownership assistance payments) paid directly to the Borrower are an acceptable source of qualifying income.
  - Pursuant to Freddie Mac guidelines, the payments may not be used to offset the monthly housing payment amount used for qualification.
  - The correspondent must provide documentation showing the amount and terms of the monthly payment received from the public housing agency that issued the voucher.
  - Homeownership Voucher Program payments must be likely to continue for the next three years.

- ***Fannie Mae***: See Fannie Mae Selling Guide Section B3-3.1-09.
  - The Section 8 Housing Choice Voucher Program is an acceptable source of qualifying income.
  - There is no requirement for the Section 8 voucher payments to have been received for any period of time prior to the date of the mortgage application or for the payments to continue for any period of time from the date of the mortgage application.
  - Determination must be received from the public agency that issues the vouchers about the monthly payment amount and whether the income is non-taxable.
  - If the income is non-taxable, the correspondent can develop an adjusted gross income for the borrower. See B3-3.1-01, General Income Information, for additional information.

SOCIAL SECURITY DISABILITY INCOME

Benefits that have a defined expiration date may be used if the income will continue to be received for at least the next three years. If the benefit does not indicate a defined expiration date, the income should be considered likely to continue. Pending or current re-evaluation of medical eligibility for benefits payments is not considered an indication the payments are not likely to continue.

Under no circumstances may lenders inquire into or request documentation concerning the nature of the disability or the medical condition of the borrower.

3:10 ASSETS AND FUNDS TO CLOSE

Unless otherwise noted below, follow LP or DU. ***However***, if the DU Report does not require Borrower's assets to be verified and/or documented, the file must be documented in accordance with Freddie Mac Streamlined Accept Documentation.

MINIMUM BORROWER CONTRIBUTION

Follow LP or DU

Property seller's prorated taxes are allowed as part of the borrower's required 5% downpayment.

GIFT FUNDS/GIFT OF EQUITY

- Follow standard Freddie Mac/Fannie Mae guidelines.
- For gift documentation, follow standard Freddie Mac/Fannie Mae guidelines.

LARGE DEPOSITS

Large deposits are defined as a single deposit that exceeds 50% of the total gross monthly qualifying income for the loan. This requirement is for **all transactions** where the deposit is needed to meet the requirements for Borrower Funds and/or required reserves.

When a deposit that meets the definition for large deposits is not documented and is not needed for Borrower Funds and/or required reserves, the funds used for qualifying purposes by the amount of the unverified deposit must be reduced.

Any borrowed funds including any related liability must be considered, including undisclosed debt. Therefore, a signed statement from the borrower explaining the origin of unverified deposits is required and must be included in the loan file.

When a single deposit consists of both verified and unverified funds, the unverified funds are used when determining whether the deposit exceeds the **50%** requirement.

Note: The reduced amount of the asset must be entered into Loan Prospector or Desktop Underwriter.

USE OF CREDIT CARDS, CASH ADVANCES OR UNSECURED LINES OF CREDIT – BORROWER FUNDS

Follow respective Agency's guidelines, Freddie Mac or Fannie Mae

VERIFICATION OF FUNDS FOR REFINANCE TRANSACTIONS

Verification of funds is required for the following:

- All refinance transactions: No-Cash-Out, Cash-Out, and special purpose transactions; **and**
- Freddie Mac Relief mortgages where the P&I increase exceeds 20% of the current P&I, or
- Freddie Mac Relief mortgages where the LTV is less than or equal to 80%.

All funds listed on the application must match those verified in the loan file and entered into LP or DU. This includes any funds required to complete the refinance transaction including reserves, funds to cover either or both the balance of the first and pay the closing of the new loan or to payoff any subordinate financing. This applies to Conforming and Super Conforming Refinance transactions including DU Refi Plus mortgages. This requirement does **not** apply to the Freddie Mac Relief mortgages where the P&I increases does **not** exceed 20% of the current P&I.

RESERVES

Reserves are calculated on the ***full monthly payment amount*** for the property, which is the sum of the following:

- Principal and interest payments on the Mortgage (P&I)
- Property hazard, flood, and mortgage insurance premiums (as applicable)
- Real estate taxes
- Leasehold payments
- Payments on secondary financing secured by the subject property
- Ground rent
- Special assessments
- Homeowners association dues (including utility charges that are attributable to the common areas, but excluding any utility charges that apply to the individual unit)

For loan approvals that require documented reserves, the following apply:

- Accounts must be verified per standard or alternate documentation.
- Accounts must be in the Borrower's name.
- Personal liquid or non-liquid assets including hardship value of IRA's, 401K's, stock/bond accounts, cash-value of insurance policies are allowed.
- Undocumented, borrowed or recent large deposits are not allowed. Stable, seasoned assets accounts are accepted.

UNACCEPTABLE SOURCES OF RESERVES

The following cannot be included as part of the borrowers' reserves:

- Funds that are not vested;
- Funds that cannot be withdrawn under circumstances other than the account owner's retirement, employment termination or death;
- Stock held in an unlisted corporation;
- Stock options and non-vested restricted stock;
- Personal unsecured loans;
- Interested Party Contributions (IPC's) – see Fannie Mae Selling Guide B3-4.1-02 Interested Party Contributions (IPC's)(4/30/2010); and
- Cash proceeds from a cash out refinance transaction.

RESERVE REQUIREMENTS

Primary Residence:

- 1 unit - Per LP or DU findings

- 2-4 units - Six months

Second Homes:

- Two months for subject property **AND** two months for each other financed property that the borrower owns and/or is obligated on the mortgage. "Other financed property" includes 1-4 unit financed properties titled as a LLC.

Investment Properties:

- 1 - 4 unit Investment Property - six months for subject property **AND** two months for each other financed property that the borrower owns and/or is obligated on the mortgage. "Other financed property" includes 1-4 unit financed properties titled as a LLC.

TRADE OF REAL ESTATE

The net proceeds of the trade-in of the Borrower's previously owned home documented by an appraisal of the Borrower's previously owned residence and a copy of the trade-in contract is permitted for other equity. The Borrower's equity in the previously owned home is determined by subtracting any outstanding liens on the previously owned residence, plus any transfer costs, from the lesser of the appraised value of the previously owned residence or its trade-in price as shown in the trade-in contract.

1031 TAX DEFERRED EXCHANGE

Section 1031 of the Internal Revenue Code provides individuals with real estate net proceeds to defer payment of taxes for any portion of the proceeds that are used to acquire additional real estate. This section of the tax code applies specifically to investment property. It does not apply to owner occupied property, which includes primary residences and second homes.

In order for 1031 exchange proceeds to be used for the acquisition of another property, that property must be treated as investment property. Loans received by BB&T that evidence 1031 proceeds used for the acquisition of a property that is registered as either primary residence or second home will be re-registered as investment, and appropriate delivery fees assessed.

3:11 LIABILITIES/RATIOS

AUTHORIZED USER ACCOUNTS
Follow respective Agency's guidelines, Freddie Mac or Fannie Mae.

CONTINGENT LIABILITIES
If a Borrower can qualify with a contingent liability, then no other documentation is required other than verifying the debt. However, in most cases the Borrower cannot qualify using the contingent liability, and further documentation is required to prove that another person is responsible for the debt. For loans submitted to LP, follow the requirements on the LP feedback certificate. For DU loans, follow Standard Freddie Mac documentation requirements.

UNDISCLOSED LIABILITIES
BB&T **strongly suggests** that Correspondents determine that all liabilities incurred by the borrower from application through loan closing are included in loan qualification. The methods that should be used for this purpose are:

- A new or refreshed credit report obtained prior to closing.
- A MERS report for determination of any other mortgages being obtained.
- Direct verification of recent inquiries, if a credit report is obtained.

The above list is not all inclusive. It is **strongly suggested** that Correspondents employ these methods for determination. If additional liabilities are discovered, those liabilities must be used to re-qualify the borrower. The loan must be re-submitted through an AUS engine prior to closing. If an updated credit score is provided, then that score will be used to determine product eligibility and pricing.

CREDIT REPORT INQUIRIES
Follow the respective Agency's guidelines, Freddie Mac or Fannie Mae.

DEFERRED STUDENT LOANS

Deferred installment debt, such as deferred student loans, must be included as part of the Borrower's recurring monthly debt obligations. When the Borrower's credit report does not indicate the required minimum monthly payment for a student loan that is deferred or is in forbearance, a monthly debt payment must be determined. To determine the Borrower's monthly debt payment for purposes of calculating the monthly debt payment-to-income ratio, **1%** of the outstanding balance of the student loan may be used as the monthly payment instead of obtaining documentation to support the payment amount. However, if any documentation is provided by the Borrower that indicates the actual monthly payment, that figure must be used in qualifying the Borrower.

RESIDENCY HISTORY DOCUMENTATION
Follow LP or DU feedback requirements concerning residency documentation.

DEBT-TO-INCOME RATIOS

- Conforming loans (LP) – Maximum Debt-to-Income (DTI) with Accept or LP A-Minus is 55%.
- Conforming loans (DU) – Maximum Debt-to-Income (DTI) with Approve/Eligible is 45%.
- Super Conforming loans (LP or DU) – Maximum Debt-to-Income (DTI) with Approve/Eligible is 45%.

SALE OR CONVERSION OF CURRENT PRIMARY RESIDENCE- CONFORMING AND SUPER CONFORMING

If the Borrower's current primary residence is pending sale and the sale will not close before the Note Date of the mortgage, or for Construction Conversion and Renovation Mortgages, the effective date of permanent financing, or the current primary residence is being converted to a second home or investment property, the monthly payment amount for the property pending sale may be excluded from the monthly debt payment-to-income ratio if the mortgage file contains:

- An executed sales contract for the property pending sale. If the executed sales contract includes a financing contingency, the mortgage file must also contain evidence that the financing contingency has been cleared or a lender's commitment to the buyer of the property pending sale;

  OR

- An executed buyout agreement that is part of an employer relocation plan where the employer/relocation company takes responsibility for the outstanding Mortgage(s)

If the mortgage file does not contain the above required documentation, the monthly payment amount for the property pending sale and the monthly housing expense for the subject property must be used to qualify the borrower for the new transaction.

Please note: DU loans only
If the Fannie Mae guidelines require the establishment of value of the Borrower's current primary residence because;

- the Borrower is purchasing a new primary residence,
- the Borrower's current primary residence is on the market and the sale will not close before the Note Date, or
- the Borrower is converting the primary residence to a second home or investment property,

then, the value must be established and evidenced by at least Form 2055, Exterior Only Inspection.

PAYING OFF DEBT TO QUALIFY

If all or any portion of the proceeds of the mortgage are being used to pay off or pay down existing debts in order to qualify for the mortgage, the seller must document such payoff in the mortgage file. Canceled checks, paid receipts and/or a copy of the Settlement/Closing Disclosure Statement or other closing statement may be used to document the repayment. A borrower who increases debt and then periodically uses refinance or debt consolidation to reduce payments to a manageable level presents a higher risk and the qualifying ratios should be close to guidelines. The borrower's history of credit use should be carefully evaluated. The correspondent should consider the Borrower's short term and long-term ability to repay the mortgage.

Follow respective Agency guidelines:

- Freddie Mac: See Freddie Mac Seller/Servicer Guide
- Fannie Mae: See Fannie Mae Selling Guide Section B3-6-07

PAYMENT PLANS FOR UNPAID INCOME TAXES

Payment plans for unpaid income taxes, whether or not there is an IRS tax lien on the subject property, must be paid in full prior to, or at loan closing.

3:12 OCCUPANCY

PROPERTIES SOLD AT AUCTION, FORECLOSURES, DEED IN LIEU, REO, BANK-OWNED, OR SHORT SALE

Eligible for financing for all occupancy types. For Investment Properties, the following restrictions apply:

Properties Sold at Auction/Foreclosure/Deed in Lieu/Short Sale for Investment Properties:

- Arms length transactions only
- Minimum fico score 740
- LTV/TLTV: 10% mandatory reduction from maximum financing

Properties Sold at REO/Bank-Owned for Investment Properties:

- A standard full appraisal is required.

PRIMARY RESIDENCES

If the subject property is a **primary residence**, there is no limit on the number of financed properties the borrower may own and/or be obligated.

SECOND HOME

A second home is defined as a 1-unit property (not a 2-4 unit property) owned by an individual and occupied by the Borrower for some portion of the year and not subject to any timesharing ownership or agreement. The property must be in a location so as to reasonably function as a second home. Typically, it should be remote in distance or time of travel from the Borrower's primary residence. The Borrower may not own other residential property in the same geographic location as the subject property. The property must also be suitable for year round occupancy, must be available for the Borrower's exclusive use and enjoyment and is not subject to any rental pools or agreements that require the Borrower to either rent the property or give a management firm control over the occupancy of the property. The property cannot be occupied by tenants or other family members as their primary residence. The property must not be located in a project that allows for short-term (daily or weekly) rentals. (This definition of a second home should make it clear that location is a factor in determining whether a property is a second home). BB&T may, in its discretion, determine that a property is not a Second Home.

Any property that is not a true second home must be underwritten to investment property guidelines.

ADDITIONAL REQUIREMENTS:

- No rental income is allowed to offset the debt.
- A gift of equity is permitted provided it is reflected on the Settlement/Closing Disclosure Statement and the appraised value is supported.
- For qualifying purposes, the monthly payment amount on the subject property should be used in the second ratio. The Borrower's monthly payment expense on the primary residence should be used in calculating the first ratio.
- See "Non-Arms Length Transactions" for additional details.
- The sales contract and gift letter are executed agreeing to the price, dollar amount of the gift, and relationship.
- If the subject property is a second home, each Borrower individually and all Borrowers collectively must not own and/or be obligated on more than **four** 1 to 4 unit financed properties, including the subject property. **Note**: 1-4 unit financed properties titled as a LLC **must** be included when determining borrower eligibility and the maximum allowable number of financed properties.
- Ownership of commercial real estate or multi-family (5 or more units) is not included in this limitation.

SECOND HOMES NOT SUITABLE FOR YEAR-ROUND OCCUPANCY
Due to investor relations, loans utilizing this feature must receive an approval through LP.
Eligible for Conforming and Super Conforming loans.

Mortgages secured by second homes which are not suitable for year-round occupancy are eligible for purchase, provided that:

- In the appraisal report, the appraiser includes comparable sales that demonstrate properties not suitable for year-round occupancy are typical for residential properties in the market area; and

- The Mortgage complies with all other requirements in Freddie Mac Seller/Servicer Guide.

INVESTMENT PROPERTY
For all 1-4 unit investment property mortgages, the borrower must have demonstrated at least a two-year history of managing 1-4 unit investment properties if rental income is being used to qualify the borrower.

Cash-Out Refinances are **not eligible** for delivery to BB&T.

- For qualifying purposes, the Borrower's monthly housing expense on the primary residence should be used in calculating the first ratio.
- If rental income is not used for qualifying, the monthly payment amount for the subject property plus operating expenses must be used in calculating the second ratio.
- The Borrower may not be affiliated in any way with the builder, developer or seller of the subject property.
- If the subject property is an investment property, each Borrower individually and all Borrowers collectively must not own and/or be obligated on more than **four** 1 to 4 unit financed properties, including the subject property. **Note**: 1-4 unit financed properties titled as a LLC **must** be included when determining borrower eligibility and the maximum allowable number of financed properties.
- Ownership of commercial real estate or multi-family (5 or more units) is not included in this limitation.

If the Borrower owns more than one financed investment property and meets the requirements above, subject loan cannot be an A-minus mortgage.

RESERVE REQUIREMENTS
Regardless of whether rental income from the subject property is used in qualifying, the following apply:
- Six months reserves required for the subject property, **AND**
- Two months reserves required for each other financed property in which the Borrower has ownership interest or on which the Borrower is obligated. "Other financed property" includes 1-4 unit financed properties titled as a LLC.
- Ownership of commercial real estate or multi-family (5 or more units) is not included in this limitation.

Refer to the Freddie Mac Rental Income Matrix for further information. Cash-Out Refinances are not allowed.

MULTIPLE MORTGAGES TO SAME BORROWER
Borrowers may own more than one financed property provided the following apply:
- If the subject property is a **primary residence**, there is no limit on the number of financed properties the borrower may own and/or be obligated.
- If the subject property is a **second home or investment property**, each Borrower individually and all Borrowers collectively must not own and/or be obligated on more than **four** 1 to 4 unit financed properties, including the subject property. **Note**: 1-4 unit financed properties titled as a LLC **must** be included when determining borrower eligibility and the maximum allowable number of financed properties.
- The subject property cannot be an A-Minus mortgage.
- Ownership of commercial real estate or multi-family (5 or more units) is not included in this limitation.

3:13 REFINANCES

Per Freddie Mac Seller/Servicer Guide, **all** refinances, No Cash Out, Cash Out and Special Purpose Cash Out, must comply as follows:

When the current mortgage will be satisfied as the result of the refinance transaction, **ONE** of the following three numbered requirements must be met relating to the borrowers on the new mortgage;

(1) At least one borrower on the new refinance was a borrower on the mortgage being refinanced**, OR**

(2) At least one borrower on the new refinance held title to and resided in the subject property as their primary residence for the most recent twelve month period **AND** the documentation provided that the borrower **EITHER:**

   a. has been making timely mortgage payments, including the payments for any secondary financing, for the most recent twelve month period; **OR**

   b. is a Related Person to a borrower on the mortgage being refinanced; **OR**

(3) At least one borrower on the new refinance has inherited or was legally awarded the mortgaged premises by a court in the case of divorce, separation or dissolution of a domestic partnership.

BB&T Correspondent Lending has imposed the following restrictions in regards to all refinances:

- Marital/Spousal rights are not acceptable as proof of legal title to the property.
- Loans may not be refinanced in which a Life Estate exists on the current title.
- Residential loans must be titled in the name of individuals only. Loans may not be titled in the name of a business, Corporation, S-Corp, Partnership, LLC or other non-living business entity.
- Transfer of ownership from an LLC, Corporation, S-Corp, Partnership, or any other non-living business entity for the purpose of refinancing the loan into the prospective borrower's name is unacceptable.
  See Section 3:8 for additional information.

NO CASH OUT REFINANCES

Recently Acquired Properties

Primary Residences, Second Homes and Investment Properties:
No seasoning requirement for No Cash Out Refinances

CASH OUT REFINANCES

Primary Residences and Second Homes
At least one Borrower must have been on the title to the subject property for at least six months prior to the Note Date except as specified below:

If none of the Borrowers have been on the title to the subject property for at least six months prior to the Note Date on a cash out refinance, the following requirements must be met:

- At least one Borrower on the refinance mortgage inherited or was legally awarded the subject property (for example, in the case of divorce, separation or dissolution of a domestic partnership)

OR, all of the following:

- The executed Settlement/Closing Disclosure Statement from the purchase transaction must reflect that no financing secured by the subject property was used to purchase the subject property. If the mortgage has an application received date prior to October 3, 2015, the Settlement/Closing Disclosure Statement must be an executed version. A recorded trustee's deed or equivalent documentation may be used when a Settlement/Closing Disclosure Statement was not used for the purchase transaction.
- The preliminary title report for the refinance transaction must reflect the Borrower as the owner of the subject property and must reflect that there are no liens on the property.
- The source of funds used to purchase the subject property must be fully documented.
- If funds were borrowed to purchase the subject property, those funds must be repaid and reflected on the Settlement/Closing Disclosure Statement for the refinance transaction.
- The amount of the cash-out refinance Mortgage must not exceed the sum of the original purchase price and related Closing Costs, Financing Costs and Prepaids/Escrows as documented by the Settlement/Closing Disclosure Statement for the purchase transaction, **less any gift funds used to purchase the subject property**. A recorded trustee's deed or equivalent documentation may be used when a Settlement/Closing Disclosure Statement was not used for the purchase transaction.
- There must have been no affiliation or relationship between the buyer and seller of the purchase transaction.
- The cash out refinance must comply with the applicable LTV/TLTV/HTLTV ratio limits and all other BB&T Conforming and Super Conforming guideline requirements.

Investment Properties:
Cash Out Refinances are **not** eligible on investment properties.

SPECIAL PURPOSE CASH OUT REFINANCE

A Cash Out Refinance mortgage where the owner of a property uses the proceeds of the refinance transaction to buy out the equity of a co-owner is a Special Purpose Cash Out Refinance. Specific guidelines are stated in the Freddie Mac Seller/Servicer Guide.

When registering/locking a Special Purpose Cash Out Refinance via BB&T's website, "Cash Out Refi Unlimited" must be selected from the drop down box in the Loan Purpose field on the Loan Information screen. "Special Purpose Cash Out Refi" must be selected from the drop down box in the Investor Feature Identifier Code field on the Product Selection and Details screen.

RECENTLY LISTED FOR SALE

No Cash Out Refinances
The subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new Mortgage loan, and the Borrowers must confirm their intent to occupy the subject property (for principal residence transactions).

Cash Out Refinances
Properties listed for sale in the six (6) months preceding the disbursement date of the new Mortgage loan are limited to 70% LTV/TLTV/HTLTV ratios.

Properties that were listed for sale must have been taken off the market on or before the disbursement date of the new Mortgage loan, otherwise they are ineligible.

PRIVATELY FINANCED FIRST AND/OR SECOND MORTGAGES
Follow LP or DU

SECOND MORTGAGES INCLUDED IN REFINANCE
A purchase money second lien being paid off in its entirety with proceeds of the new first mortgage can be considered a No Cash Out Refinance. Loans with proceeds to pay down any debt, including an existing second, would be considered as a Cash Out Refinance.

STREAMLINE REFINANCES
Streamline refinances are not permitted through Correspondent Lending.

CEMA LOANS (NEW YORK STATE) - See the Funding Procedure section for more information.

3:14 TEXAS EQUITY SECTION 50(a)(6) TRANSACTIONS

Texas Equity section 50(a)(6) laws/guidelines must be followed when refinancing an existing Texas Equity section 50(a)(6) mortgage (regardless of any new Cash Out) or providing any cash back to the borrower on a Primary residence refinance.

Schedule C of the title commitment must be reviewed to determine if the loan being refinanced is a Texas Equity loan.

Correspondents must indicate that the loan being delivered for funding is a Texas Equity section 50(a)(6) at the top of the BB&T Mortgage Correspondent Lending Document Checklist.

Eligible Loan Programs:
Conforming and Super Conforming:

- Fixed Rate programs with 10-30 Year Amortizations

- 7 Year and 10 Year Fully Amortizing ARMs

Product Purpose:
No Cash Out Refinance and Cash Out Refinances

- Please note that the Standard Agency (Freddie Mac/Fannie Mae) classifications of No Cash Out and Cash Out Refinances differ from the manner in which Texas Law classifies these mortgages.

- Under Texas Law, if the borrower receives any cash back at closing, the loan must follow the Texas Equity section 50(a)(6) laws/guidelines. Closing costs, Prepaids and Taxes may be rolled into the loan amount: however, no cash back is allowed at closing. A principal curtailment is allowed to eliminate any cash back at closing. Additionally, if an existing Texas Equity section 50(a)(6) mortgage is being refinanced, the new mortgage must conform to Texas Equity laws/guidelines.

Loan Term/Amortization: 30, 20, 15 and 10 Year Amortization.

Assumption: Varies - Please refer to the Product Description for specific product/program chosen.

Mortgage Insurance: Loan-to-Value over 80% is **not** allowed.

Temporary Buydowns: Not allowed

Escrows: Not required

3:15 TEXAS EQUITY SECTION 50(a) (6) UNDERWRITING GUIDELINES

Automated Underwriting: LP and DU Eligible.

Borrower Eligibility: U.S. Citizen, Permanent Resident Alien, and Non-Permanent Resident Alien.

Occupancy: Owner Occupied, Primary residence only.

Property Types: 1-unit Single Family Dwelling, Condominium and PUD classification as the borrower's Homestead located in the State of Texas.

Documentation: Follow LP or DU Feedback.

Credit Requirements: Follow LP or DU Feedback.

Credit Score: Refer to the Minimum credit score requirements located within the Price Adjustments and LTV Charts.

LTV/TLTV: Refer to the Price Adjustments and LTV Charts.

Ineligibles:

- Property designated as agricultural use, unless property is used primarily for the production of milk. Minimal farm type animals are acceptable as long as it is clear they are being kept as pets.
- Properties subject to roll back taxes (i.e. properties where the Agricultural use exemption was removed and subjected to roll back taxes).
- 2-4 unit dwellings, Investment Properties and Second Homes.
- Properties with more than one Texas Equity section 50(a)(6) loan.
- Texas Equity section 50(a)(6) loans may not be closed in a trust.
- The utilization of a Power of Attorney is unacceptable on Texas Equity section 50(a)(6) transactions.
- Loans with closing costs that exceed 3% of the loan amount. Includes third party, attorney, title company fees and discount points, but excludes prepaid interest and escrows. Closing cost over the 3% limitations cannot be cured by a lender credit, they must be waived or Paid outside of Closing by the Lender.
- Government, Affordable and Relief Refinance loan programs.

Secondary Financing:

- No new secondary financing allowed, regardless of LTV/TLTV.
- Existing, purchase money second mortgages may be resubordinated provided the TLTV is less than or equal to 80%.

Qualifying Ratios:

- Conforming (LP) – Maximum DTI is 55%
- Conforming (DU) – Maximum DTI is 45%
- Super Conforming (LP or DU) – Maximum DTI is 45%

Reserves: See "Reserves" section of this guide for more details.

Appraisal Requirements:
One full URAR with interior/exterior inspections is required, even if the AUS feedback recommends a different property valuation method.

Seasoning Requirement: 12 months (Note Date of the mortgage being refinanced to Note Date of the new refinance transaction).

Title Requirements and Additional Disclosures:

- Every borrower must be on title prior to Closing. Properties held in a Trust are not eligible.
- Every borrower and his/her spouse must sign the following documents twelve days prior to closing.
  - Loan application (1003)
  - Notice concerning extensions of credit defined by section 50(a)(6), Article XVI, Texas Constitution.
- Mortgage Policy of Title Insurance (Form T-2) supplement by an Equity Loan Mortgage Endorsement (Form T-42) and a Supplemental Coverage Equity Loan Mortgage Endorsement (Form T-42.1).
- Schedule C of the title commitment
- The following documents must be signed at Closing:
  - Notice of right to cancel
  - Acknowledgement of Fair Market Value of Homestead Property

Special Considerations:

- Borrowers who reside in Texas and request a Cash Out refinance on an Investment Property will be subjected to Texas Equity section 50(a)(6) laws/guidelines if they do not own any other property.
- All loans must close at a title company, bank branch or Attorney's office.
- In the event, that an internal review or customer notification uncovers that a loan was originated out of compliance with Texas Equity section 50(a)(6) statues, the closing attorney should be contacted within 24 hours.
- BB&T cannot require that the borrower pay off any BB&T-owned debt that is not tied to the subject property, in order to qualify. This includes debt that may be owned by one of BB&T's affiliates.

Internal Use By BB&T

- The business type of "Texas Equity" must be selected on the Loan Data screen of Unifi.
- SFC 304 (TX section 50(a) (6) must be entered on delivery screen two (2).
- Investor Feature Identifier code 221 (TXsection50 (a) (6) must be entered on delivery screen three (3).

END OF TEXAS EQUITY SECTION

3:16 <u>CONSTRUCTION CONVERSION AND RENOVATION MORTGAGES</u>

- Loans receiving ***LP "Accept" & DU "Approve/Eligible"*** are eligible. LP Caution A-minus is not eligible.
- ***Freddie Mac***: Separate Construction Conversion Documentation option ***<u>only</u>***. See Freddie Mac Seller/Servicer Guide.
- ***Fannie Mae***: Conversion of Construction-to-Permanent Financing Two-Closing Transactions option ***<u>only</u>***. See Fannie Mae Selling Guide Section B5-3.1-03.

The following apply regardless of LP or DU approval:

- Construction Conversion and Renovation Mortgages must adhere to BB&T Correspondent Lending requirements as stated in the BB&T Correspondent Lending Guide.
- BB&T Correspondent Lending overlays apply.
- Primary Owner Occupied and Second Homes only.
- 1 – 4 Unit Site Built homes only.
- All improvements must be ***fully*** completed before **delivery** to BB&T Correspondent Lending.
- ***<u>Age of Credit Documentation</u>***: Credit documents must not exceed **<u>120</u>** days as of the Note Date (effective date of permanent financing).
- ***<u>Appraisal Requirements</u>***:
  - Interior/Exterior appraisal (Freddie Mac Form 70/Fannie Mae Form 1004 for 1 unit properties; Freddie Mac Form 72/Fannie Mae Form 1025 for 2 – 4 unit properties) required regardless of LP feedback.
  - Appraiser's opinion of value must provide the "as completed" value.
  - Age of Appraisals:
    - If the effective date of the appraisal report is more than 120 days before the Note Date, and not more than 12 months before the Note Date, an appraisal update with at least an exterior-only inspection is required. For the purpose of this section, the Note Date is equivalent to the Effective Date of Permanent Financing when the mortgage is a Construction Conversion or Renovation Mortgage.
    - If the effective date of the appraisal report is more than 12 months before the Note Date, a new appraisal with an interior and exterior inspection is required.
- If the new refinance mortgage replaces the interim construction mortgage more than **<u>180</u>** days after the property completion, a Right to Cancel would be required.
- Escrow holdbacks are eligible for landscaping **<u>only</u>**.

<u>Ineligible Mortgages</u>

- Loans receiving LP Caution A-Minus
- Mortgage term below 15 years or exceeding 30 years
- Freddie Mac Special Purpose Cash Out Refinance transactions
- Mortgages subject to temporary buydowns
- Freddie Mac Home Now and Neighborhood Home mortgages
- Manufactured Homes
- Initial Interest Mortgages
- Freddie Mac Construction Conversion and Renovation Mortgages Documentation structure:
  - Integrated Construction Conversion Documentation
  - Modification Construction Conversion Documentation
- Fannie Mae Conversion of Construction-to-Permanent Financing: Single-Closing Transactions
- LP and DU Approved <u>Modified</u> Construction Loans

Mortgage File Documentation Requirements

Freddie Mac Separate Construction and Conversion and Fannie Mae Construction-to-Permanent Financing Two-Closing Transactions utilize two separate loan closings with two separate sets of legal documents; therefore, there must be separate applications and disclosures for both the Interim Construction and the Permanent Financing. BB&T only purchases the refinance of interim construction to permanent financing mortgages.

Freddie Mac: Construction Conversion and Renovation Mortgages

The following requirement applies in addition to the mortgage file documentation requirements located in the Freddie Mac Seller/Servicer Guide.

***Purchase Transactions*: Correspondents must provide an explanation on the Transmittal Summary addressing the decision to structure as a purchase transaction while documenting as a refinance.**

For guidance with entering data into Loan Prospector visit the following link:

Loan Prospector® - How to Enter Data for Construction Conversion and Renovation Mortgages

3:17 MORTGAGE INSURANCE OPTIONS

Private mortgage insurance is required on all non-government loans with LTV's that exceed 80%. The Correspondent is responsible for securing private mortgage insurance from an approved provider. The private mortgage insurance must comply with secondary market guidelines for coverage, structure, and qualifying. When Mortgage Insurance is required, it is the Correspondent's responsibility to remit the required insurance premium directly to the mortgage insurer. Should a loan enter into a claim situation and BB&T discovers that the Correspondent has not paid the premium, and the loan is uninsured, the Correspondent will be required to repurchase the uninsured loan.

Private mortgage insurance companies may impose different credit or property restrictions that can impact the ability to secure their coverage. Correspondents are responsible for being knowledgeable of guideline changes and restrictions implemented by the mortgage insurance companies. BB&T Correspondent Lending does not self-insure loans that exceed 80% or offer pricing adjustments to offset the inability to secure private mortgage insurance on a particular transaction.

***NOTE:* Loans disclosed at loan application with Borrower Paid Mortgage Insurance (BPMI) must be closed with the borrower paying any upfront premiums with their own funds. BPMI cannot be paid with a lender credit.**

Acceptable Mortgage Insurance Options:

- **Standard Premium**-Conforming and Super-Conforming (LP and DU)
  - Split Premium MI combining monthly MI with upfront premium **paid** at closing. Upfront premium must be paid by the Borrower, Seller or Builder and cannot be paid through a Lender credit.
- **Single Premium aka Super Single Premium**- Conforming and Super-Conforming (LP and DU)
  - Single upfront premium **paid** at closing. Proof of payment to MI Company required. Copy of check is sufficient.
- **Reduced Premium**- Conforming and Super-Conforming (LP Approvals **Only**)
- **Financed Single Premium** - Conforming (LP)
  - Maximum Gross LTVs are product and loan type specific. Refer to Price Adjustments and LTV Charts
    - ♦ Maximum Gross LTV is 95% for Fixed Rate products (includes financed MI)
    - ♦ Maximum Gross LTV is 90% for ARM products (includes financed MI)
  - Standard coverage is required.
  - **Super Conforming loans are NOT ELIGIBLE for Financed MI.**
- **Financed Single Premium** - Conforming (DU)
  - Maximum LTVs are product and loan type specific. Refer to Price Adjustments and LTV Charts
  - The Base LTV must not exceed 95% for Fixed Rate products; 90% for ARMs products
  - The Gross LTV is 95% for Fixed Rate products; 90% for ARM products (includes financed MI);
  - Property must be a 1-unit primary residence or second home.
  - The amount of coverage must meet the standard coverage level requirements using the Base LTV.
  - The mortgage insurance premium must be paid with a single-premium payment.
  - **Super Conforming loans are NOT ELIGIBLE for Financed MI.**

If the mortgage insurance is being financed or paid in cash, this information must be included in the data submitted to LP or DU and, if borrower is paying in cash, adequate funds must be verified. See the final 1003 application, page four, section VII, letter (n) to confirm if the premium is financed or being paid in cash. The dollar amount for the single premium must be disclosed on the settlement statement.

- **Lender- Paid MI-** Conforming & Super Conforming (LP and DU)
  - Single Premium Option only.
  - Proof of payment to MI Company required for LPMI. Copy of check is sufficient.
  - **The Correspondent is the Lender. BB&T does not offer special pricing for Lender-Paid MI.**
  - See Freddie Mac Seller/Servicer Guide for additional information.
  - **Super Conforming loans are eligible for Single Premium Lender Paid MI**.

Unacceptable Mortgage Insurance Options:

- Freddie Mac Custom MI
- Fannie Mae Lower-Cost MI
- Fannie Mae Reduced MI
- **Split Premium MI –** A portion of the borrower-purchased mortgage insurance premium is paid and the other portion is financed in the loan amount.
- Insured loans with Declining Renewals
- **Borrower Paid Mortgage Insurance (BPMI)** - Loans disclosed at loan application with BPMI, upfront premiums cannot be paid with a lender credit.

Eligible Private Mortgage Insurance Companies*

- GENWORTH
- MGIC
- UGIC
- RADIAN
- ESSENT GUARANTY
- Arch Mortgage Insurance Company f/k/a CMG Mortgage Insurance Company
- National Mortgage Insurance Corporation (National MI)

***NOTE: Loans submitted to BB&T for Pre-Close Underwriting must choose either Essent Guaranty or MGIC as the mortgage insurance provider*.**

MINIMUM COVERAGE REQUIREMENTS

The following minimum coverage is required for all Zero-Up Front MI Plans for 30 Year (21 – 30 Year) Fixed & all ARM Programs, Conforming and Super Conforming:

LTV	STANDARD COVERAGE
90.01% to 95.00%	30%
85.01% to 90.00%	25%
80.01% to 85.00%	12%

The following minimum coverage is required for all Zero-Up Front MI Plans for 15 & 20 Year Fixed Programs. Conforming and Super Conforming:

LTV	STANDARD COVERAGE
90.01% to 95.00%	25%
85.01% to 90.00%	12%
80.01% to 85.00%	6%

The following minimum coverage is required for Reduced Coverage loans per Freddie Mac. Conforming and Super Conforming:

LTV	REDUCED COVERAGE
90.01% to 95.00%	25%
85.01% to 90.00%	17%

Special Products (MI Requirements)

SPECIAL PRODUCT	COVERAGE
N/A	N/A

Ineligible Product Types

- A-Minus
- Property and occupancy requirements are subject to the MI coverage options.

MORTGAGE INSURANCE CANCELLATION

BB&T follows Homeowner's Protection Act requirements (minimum 24 month history and current value required prior to PMI deletion; auto termination on the date the loan is first scheduled to reach 78%; this date is provided on the PMI Disclosure.)

The Homeowner's Protection Act defines "residential mortgage transaction" as a transaction…in which a mortgage, deed of trust, purchase money security interest arising under an installment sales contract, or equivalent consensual security interest is created or retained against a single-family dwelling that is the principal residence of the mortgagor to finance the acquisition, initial construction, or refinancing of that dwelling. BB&T will continue to require that the Truth-in-Lending disclose life-of-loan PMI for second homes.

BB&T is not under any obligation to remove the PMI on any loan prior to the automatic termination date disclosed. A client's rights as described in the Notice are as follows: Clients have the right to submit a request for PMI deletion once their loan amortizes or is paid down to 80% of the original value. This does not mean the PMI will be removed unconditionally upon receipt of said request. A client has the right to request a PMI deletion review at any time once their loan-to-value ratio reaches 80% of the original value of their home. The 80 % LTV may be achieved ahead of scheduled amortization, but still does not compel the lender to delete the PMI; it is only the benchmark at which the client can submit a request for review. The Act further states that upon receiving any client-initiated request for PMI deletion, the lender can expect certain requirements are met prior to approving the removal of PMI from a loan. Those requirements are shown on the disclosure.

Homeowner's Protection Act Disclosure

This disclosure is required on all One-Unit, Single-Family and Owner-Occupied residence transactions that are required to maintain private mortgage insurance. A disclosure must be given to the borrower(s), but is not required to be signed.

3:18 APPROPRAISAL POLICY AND PROCEDURES

INTRODUCTION

All appraisal reports must establish and support the most probable market value as defined in the Uniform Standards of Professional Appraisal Practice (USPAP). All appraisals must comply with FIRREA (Financial Institutions Reform, Recovery, and Enforcement Act of 1989), applicable regulatory requirements, and the policies outlined below. Since it is the policy of BB&T to sell loans in the secondary market, all appraisal reports must comply in all respects with all appraiser independence requirements, restrictions and guidelines including those contained in the Appraiser Independence Requirements as adopted by Freddie Mac (Bulletin 2010-13) and Fannie Mae (Ann. SEL-2010-14) and the Appraisal Independence Requirements set forth in Title XIV, Subtitle F, Section 1472 of the Dodd-Frank Wall Street Reform and Consumer Protection Act along with the applicable requirements, restrictions and guidelines contained in the BB&T Correspondent Lending Guide.

BB&T does not approve the individual appraisers used by Correspondents. However, BB&T does expect Correspondents to have sound internal procedures for approving and selecting appraisers. These internal procedures should be structured so that the spirit and intent of the appraisal policies and procedures contained herein are included.

Each appraiser must meet legal requirements of the state in which he/she resides and/or practices, and be in good standing with the licensing agency and the state. A favorable indication of an appraiser's professionalism is characterized by having an acceptable Errors & Omissions/Professional Liability Policy in an amount commensurate with the appraisal values to be performed for lending institutions, generally an amount of at least $500,000.

All appraisals must be prepared by qualified, state licensed or certified appraisers who have been approved by the Correspondent. In order to maintain sound lending practices, the appraiser must remain independent and unbiased. For this reason, the Correspondent is responsible for selecting the appraiser. The selected appraiser should in no way have direct or indirect interest in the real estate transaction. Appraisers selected by the Correspondent must be qualified by experience, training, competence and knowledge to perform appraisals that will meet the objective of BB&T and secondary market. In addition, they must have a positive reputation, generate quality appraisals, maintain the capacity for independent judgment, and be committed to continuing education and professional development.

APPRAISAL PORTABILITY

The Correspondent may accept an appraisal prepared by an appraiser for another federally regulated lender (FDIC, OTS, FRB or OCC), financial services institution or Mortgage Banker who is a wholly-owned subsidiary of a federally regulated institution. This definition does not include Mortgage Brokers or Mortgage Bankers who are **not** wholly-owned subsidiaries of a federally regulated institution. A transfer is acceptable if:

- The appraiser has been selected and engaged by the transferring lender;
- The appraisal must be in the name of the transferring lender and be accompanied by a transfer letter from the lender signed by a corporate officer (included in submission file); and
- The lender assures it is in compliance with Freddie Mac and Fannie Mae's Appraiser Independence Requirements.

PERFORMANCE REVIEW

The appraisal reports prepared by each approved appraiser shall be periodically reviewed by BB&T Correspondent Lending personnel as well as BB&T's Quality Control Department. The reports will be judged on thoroughness, accuracy and usefulness in the underwriting process, and compliance with Investor requirements. If BB&T determines that an appraiser's reports are unsatisfactory in relation to BB&T and/or Secondary Market requirements or if an appraiser has been disciplined by the state, or had their license removed by the state, the appraiser must not be used by a Correspondent.

Each person employed as an appraiser should sign a certification that they will abide by USPAP, and comply with all respects of the appraiser independence requirements, restrictions and guidelines including, but not limited to, those contained in the Appraiser Independence Requirements as adopted by Freddie Mac and Fannie Mae.

DIGITAL PHOTOS/ELECTRONIC SIGNATURES

Electronic imaging is acceptable for the appraiser's signature provided the appraisal contains the following (or similar language):

"The signatures affixed to this report were applied by the original appraiser(s) or supervisory appraiser and represents their acknowledgements of the facts, opinion and conclusion found in the report. Each appraiser may apply their own signature electronically. Electronically applied signatures use password-protected digital methods. They have the same or more safeguards and carry the same validity as the appraiser(s) hand applied signature".

3:19 PROPERTY ANALYSIS

BB&T Correspondent Lending follows standard appraisal procedures for documentation and disclosure on all appraisals. Some issues regarding specific areas of appraisals are addressed below. BB&T Correspondent Lending Underwriting is available to discuss or review any unusual circumstances that may apply to a particular property.

APPRAISAL FORMAT

- Conforming Fixed Rate and ARM Loans approved through LP - BB&T will accept the appraisal form required by LP with all applicable addendums. See the "Photographs" section regarding requirements of interior/exterior appraisals.

- Conforming Fixed Rate and ARM Affordable Loans (HOME Mortgages) approved through LP – must comply with the appraisal guidelines in the Freddie Mac Seller/Servicer Guide. Interior/exterior appraisal is required regardless of LP feedback.

- Conforming Fixed Rate and ARM Loans approved through DU - BB&T will accept the appraisal form required by DU with all applicable addendums. See the "Photographs" section regarding requirements of interior/exterior appraisals. Exception: Forms 2055 (Exterior Only Inspection Residential Report) are not allowed.

- Super Conforming- All Loan Types (LP or DU) - Full interior/exterior URAR (Freddie Mac Form 70/Fannie Mae Form 1004 for 1 unit properties; Freddie Mac Form 72/Fannie Mae Form 1025 for 2 – 4 unit properties) with all applicable addendums, regardless of LP or DU findings. For loans with LTV/TLTV/HTLTV ratios greater than 75% and the value is greater than or equal to $1,000,000, a full URAR and field review (Form 1032 for 1 unit properties and Form 1072 for 2-4 unit properties) are required. When the field review results in a different value, the lower of the original appraised value, field review value or sales price must be used to calculate the LTV/TLTV/HTLTV.
  See the "Photographs" section regarding requirements of interior/exterior appraisals.

- The Market Conditions Addendum (Freddie Mac Form 71 and Fannie Mae Form 1004MC) are required for all property types and appraisal types completed on or after April 1, 2009.

- For additional information regarding acceptable appraisal forms, see the "Appraisal Form Matrix" located under "Matrices" in the Correspondent Lending Library.

- For additional information regarding delivery and purchase of Conforming and Super Conforming loans, refer to Section 5:3 "Loan File Submission" of the Funding Procedures.

Re-Certification of Value

- **Existing Construction and New Construction:**
  - If the effective date of the appraisal report is more than 120 days before the Note Date, and not more than 12 months before the Note Date or the Effective Date of Permanent Financing when the mortgage is a Construction Conversion or Renovation Mortgage, an appraisal update with at least an exterior-only inspection is required.
  - If the effective date of the appraisal report is more than 12 months before the Note Date, a new appraisal with an interior and exterior inspection is required.
- For additional information please refer to the Freddie Mac Seller/Servicer Guide.

<u>Photographs</u> – APPRAISALS WITH COLOR PHOTOGRAPHS REQUIRED FOR LOANS DELIVERED TO BB&T, ON AND AFTER JANUARY 1, 2012.
When an interior and exterior appraisal inspection is performed on the subject property, it is now required that interior photographs of specific rooms and areas be included. At a minimum, pictures of the following rooms are required. This is in addition to the typical exterior inspection pictures, front, rear and street scenes. Additional room pictures are also acceptable.

- The kitchen;
- All bathrooms;
- Main living area;
- Examples of physical deterioration, if present;
- Examples of recent updates, such as restoration, remodeling, and renovation, if present; and
- Examples of amenities, conditions and external influences that materially impact market value or marketability.

<u>Challenge to Value</u>
When the Correspondent Underwriter has reviewed the appraisal and disagrees with the value, the underwriter should seek to resolve their concerns with the appraiser as a normal process; i.e. obtaining additional comps or sales listings to help support the current value. The Correspondent Underwriter should not adjust the value but rather discuss with the appraiser their concerns. After discussion with the appraiser, if the appraisal value is still deemed unacceptable, another appraisal may be obtained from another approved appraiser provided the initial appraisal is found to be flawed or tainted and the basis for such determination is documented in the file or, when written pre-established policies allow for a second appraisal or if required by law. If a second appraisal is obtained, and found acceptable, the lower value of the two appraisals must be used. Any deficiencies to the appraisal that cannot be resolved through normal channels would make the property unacceptable. **<u>Files submitted with more than one appraisal which is outside the Correspondent Lending Underwriting and Product guidelines must include an acceptable explanation as to it presence in the loan file.</u>**

<u>Appraisal Sources</u>
Appraisals must list both data sources and verification sources with respect to comparable sales selected by the appraiser. If the Correspondent Underwriters find appraisers are not doing this correctly, then interaction with the appraiser is necessary to receive the complete data required.

<u>Comparable Sales for Distressed Properties</u>
For a subject property that is the result of a foreclosure, short sale or builder sale, the appraiser is responsible for determining which comparables are most appropriate for the assignment at hand. The appraisal must be reviewed to ensure the comparables are reflective of other foreclosure, short sales or builder sales.

<u>Seller Concessions</u>
Excessive seller concessions artificially inflate the sale price of the property, thus leading to an inflated market value. In particular, closer scrutiny to unusual sales or financing concessions is necessary to ensure they are properly accounted for in the appraisal report.

3:20 GENERAL APPRAISAL REQUIREMENTS

- Re-use of an existing appraisal for a subsequent refinance is not permitted. A new appraisal must be ordered for each mortgage transaction.
- The appraisal must be requested by the Correspondent and it must be signed by an appraiser approved by the Correspondent. (BB&T will not accept appraisals ordered by the borrower).
- For additional information regarding BB&T Correspondent Lending's appraisal format and/or re-certification of value requirements, see the "Property Analysis" section (3:19).
- The appraisal must include the appraiser's license/certification number and the license/certification expiration date.
- Correspondents are expected to know whether or not a property is subject to any special assessments and to be aware of the effect of the assessments on the property's value and marketability. Appraisers are required to reflect the effect of the assessments on the value or marketability of the property, if applicable.
- BB&T does require escrow for the payment of special assessments including but not limited to front foot assessments, user benefit fees, water/sewer fees, etc.
- BB&T will not accept any mortgages supported by an appraisal report that makes reference to the race, color, religion or national origin of any person or the racial composition of the neighborhood.

Quality and Condition Rating on Appraisals

The appraisal report must contain an accurate description of the improvements and any factors that may affect the value or marketability of the subject property. For appraisal reports that are required to be completed using the Uniform Appraisal Dataset (UAD), the appraiser is responsible for reporting on the condition and quality of the property.

A property with a quality rating of Q6 is **not** acceptable collateral. It is acceptable for an appraisal to be completed subject to repairs or alterations required for the subject property to be rated Q5 or better.

A property with a condition rating of C5 or C6 is **not** acceptable collateral. It is acceptable for an appraisal to be completed subject to repairs or alterations required for the subject property to be rated C4 or higher.

For property with an unacceptable rating the appraiser may be requested to complete the report "subject to" and list the repairs or alterations needed to bring the property up to an acceptable rating. The increased quality or condition rating should be reflected in the adjustment made to comparable sales. Properties appraised "subject to" require that a Final Inspection and completion report be done verifying required repairs or alterations have been completed.

Note: Any required repairs or alterations must be completed prior to closing.

Appraisal Best Practices

Appraiser qualifications

- Lenders should review appraisers' licensing and performance at least once each licensing cycle.
- Lenders should consider membership in a professional appraisal organization as a qualification criterion, but membership or lack of membership in such an organization should not be the only criterion for or against approving, appraisers, or selecting appraisers for specific assignments.

Lender staff qualifications

- Staff must be trained to properly underwrite the appraisal to ensure that the appraiser's opinion of value meets the definition of "market value", and that the appraisal is accurate and fully supported.
- Staff should be familiar with Uniform Standards of Professional Appraisal Practice, applicable laws, and Freddie Mac appraisal requirements.
- Staff must be familiar with Appraiser Independence Requirements (formerly known as HVCC).

Appraiser selection

- Ensure that turn times for appraisers to perform appraisals are reasonable as unreasonable turn times may adversely affect the quality and accuracy of the appraisals.
- Some markets or properties may require that the appraiser have access to non-traditional data sources in order to provide the Lender with a credible appraisal. In such cases, the Lender should ensure that the appraiser has access to the necessary market data to support any conclusions about the market.

Appraisal reviews

- Underwriting and any appraisal reviews should include the following:
  - All appraisal photos.
  - Maps used to identify the location of comparable sales in relation to the subject property.
  - Sales history of the mortgage premises to determine consistency with other file documentation.
  - Current listings and pending sales support any adjustments, (Ensure that if the appraiser determines that older sales are more representative of the subject property, the appraiser has provided current listings or pending sales to support any time adjustments or lack of adjustments for the differences in the age of the sales.)
  - Comparison of the original appraisal report or inspection report to the review appraisal report, if one was obtained for conflicting information; the Lender should have policies and procedures in place to reconcile conflicting information.
  - Review the appraiser signature, license number, and date of report.
  - Have processes in place in which the appraisal, loan application and title work are compared for consistency, and comparison of the application and legal documents to the property description is provided by the appraiser.
  - Perform random and target reviews.
  - Be aware of market trends in the markets the Lender originates mortgages.

- Lenders should also thoroughly review the mortgage file to identify and investigate the following appraisal red flags:
  - Comparables not independently verified or recorded.
  - Value not supported by the comparables, and/or the comparables are not appropriate.
  - Incorrect appraisal report form or inspection type for the type of transaction.
  - Inconsistencies or unexplained adjustments.
  - Typographical and mathematical errors.
  - Appraiser is not familiar with the market in which the property is located.
  - Appraisal ordered prior to the sales contract date.
  - Completion certification required and not in the mortgage file.

- The Lender's due diligence in monitoring the quality and accuracy of appraisals is part of the Lender's responsibility for the quality of its lending. Lender's policies and procedures for valuation should address the following:
  - The selection of appraisers in compliance with FHFA appraisal requirements, Appraiser Independence Requirements and Freddie Mac requirements.
  - Monitoring the quality and accuracy of appraisals performed by individual appraisers.
  - Knowledgeable staff underwriting appraisals and performing quality control for appraisals.
  - Appraiser's opinion of value reflects the cash-equivalent price without undue stimulus such as concessions.
  - Use of automated valuation models and other tools to monitor appraisal quality.

3:21 CONDOMINIUM REQUIREMENTS

BB&T's Condominium Policy Concerning Classification Certification and Warranties
Each condominium loan delivered to BB&T must be classified to secondary market industry standards. BB&T adopts Freddie Mac guidelines as the benchmark for classifying condominium properties. ***Loans submitted through LP or DU must comply with Freddie Mac requirements.***

BB&T Correspondent Lending is now offering the Correspondent more flexibility in classifying condominiums. This flexibility allows Fannie Mae Approved condos to be delivered to BB&T. Reference tools are available to help the Correspondents meet the requirements for condominium delivery. They are available in the ***Forms*** folder located in the BB&T Correspondent Lending Library within the document named "BB&T Condominium Guidelines" as well as the links listed below:

Standard Freddie Mac definitions and minimum requirements are located in the Freddie Mac Seller/Servicer guide: http://www.freddiemac.com/singlefamily/guide/

Condominiums approved under Fannie Mae's Reciprocal Project Review option are eligible for delivery to BB&T. Requirements are located in the Freddie Mac Seller/Servicer guide.

The following link also provides a quick reference for minimum requirements:
http://www.freddiemac.com/learn/pdfs/uw/condo.pdf

The Correspondent may choose either of these review options if the situation permits.

- The Condominium Classification Certification must be completed and included in each condominium file. This form allows the Correspondent to indicate which classification to apply to the particular property.

- **Full Condominium Review**: Complete the Condominium Classification Certification. Provide completed Condominium Project Questionnaire – Full Form with all appropriate attachments including current budget and balance sheet for the HOA (*or if applicable, Project Reserve Study*) and declaration page for the current insurance policies which have been reviewed by the Correspondent. Questionnaire must be completed by the HOA representative.

- **Streamlined Review**: Determine if property is Streamline eligible. Complete the Condominium Classification Certification, and the Condominium Project Questionnaire – Short Form Questionnaire must be completed by the HOA representative.

Allowances and Limitations

- BB&T ***requires*** the completion of the Condominium Project Questionnaire – Full Form or comparable form on all classifications except Detached or Streamlined eligible condominiums. The Correspondent is responsible for reviewing the appraisal and all HOA information including the current budget and balance sheet (*or if applicable, Project Reserve Study*) along with the declaration page for the current insurance policies to determine the appropriate classification. This classification is then noted on the **Condominium Classification Certification.** The completed and signed Certification, appropriate attachments, including the current budget and balance sheet for the HOA and declaration page for the current insurance policies are also **required** to be submitted with the loan package.

- All condominiums must be classed for delivery to BB&T. This includes Conforming and Super Conforming loans.

- The Streamlined Review (Freddie Mac) is available for Conforming and Super Conforming Conventional loans. Because of the unique allowances with this Review, **investment properties** are ***not*** eligible for the streamlined review.

- BB&T will accept either Fannie Mae approved projects **(CPM or PERS) depending whether it's a new or established condo,** or Freddie Mac classed condos.

FLORIDA PROPERTIES
Mortgages secured by condominiums in Florida are restricted to lower LTV's ***under the Streamlined Review process***.

Important: Regardless of AUS (LP or DU), Florida condominium properties that are new projects or newly converted projects are eligible only if approved through Fannie Mae's PERS process. New condominium projects for which evidence of PERS approval cannot be provided are not eligible for delivery.

Please see Streamlined Matrix below for additional information regarding Florida properties.

3:22 STREAMLINED REVIEW OF UNITS IN ESTABLISHED CONDO PROJECTS

The Streamlined Review is eligible for units in an ***ESTABLISHED*** condominium project for Conforming and Super Conforming conventional loans. The requirements to be classified as eligible for the Streamlined review are:

1. Must meet the definition of an Established Project: The Project is fully complete and **NOT** subject to additional phasing, **AND** at least 90% of the total units have been **CONVEYED** to unit purchasers other than the developer, **AND** the unit owners control the homeowners association (there is no seasoning requirement for the turnover of control to the unit owners).

2. A condominium project containing a mix of attached and detached units is eligible for the streamlined review.

3. Must meet maximum LTV/TLTV/HTLTV Ratios in the table below:

Units in Established Condominium Projects
NOT Located in Florida

Occupancy	Maximum LTV/TLTV/HTLTV	
	LP Accept Risk Class	**All Other Mortgages***
Primary Residence	90%	80%
Second Home	75%	75%
Investment Property	Not Eligible	Not Eligible

Delivery Requirements: Refer to Freddie Mac Seller/Servicer Guide for special requirements

Units in Established Condominium Projects
Located IN Florida

Occupancy	Maximum LTV/TLTV/HTLTV		Credit Score
	LP Accept Risk Class	**All Other Mortgages***	
Primary Residence	75%	75%	680
Second Home	70%	70%	700
Investment Property	Not Eligible	Not Eligible	N/A

*DU Approve/Eligible and A-Minus Mortgages

4. Cannot be an Investment property OR Manufactured Home.
5. The Project cannot be an Ineligible Project as defined in the Freddie Mac Seller/Servicer Guide.
6. Appraisal review to determine the subject "unit" does not fall under any "Ineligible" criteria.
7. If a loan is run through Fannie Mae's DU and receives an "Approve/Eligible," property must meet Freddie Mac Condominium Guidelines for Established Condominiums to be eligible for Streamlined Review process.

Review the Freddie Mac Seller/Servicer Guide for further instruction relative to Streamlined Reviews.

The following must be submitted in all files originated utilizing the Streamlined Condominium Review:

- Condominium Project Questionnaire – Short Form
- Condominium Classification Certification

3:23 PLANNED UNIT DEVELOPMENT (PUD) REQUIREMENTS

GENERAL PROJECT WARRANTIES FOR PLANNED UNIT DEVELOPMENTS (PUDS)

All PUDs ***submitted through LP or DU must comply with Freddie Mac requirements*** and must meet the following:

- Compliance with the law. The PUD must be in compliance with all applicable state and local laws. BB&T will assume that a PUD meets this requirement unless there is information or reason to believe the project is not in compliance.

- Ineligible Project. The PUD may not be an ineligible project as defined by Freddie Mac. Special attention should be given to projects with resort type amenities.

- Common elements. The HOA must own the common elements including amenities, and property owners must have the right to their use.

- Master Association. If the subject PUD is part of a Master Association, the Master Association must meet PUD requirements.

3:24 DECLINING MARKET POLICY

Conforming and Super Conforming loans must be underwritten in accordance with Freddie Mac and Fannie Mae Guidelines.

Loans underwritten to satisfy these guidelines will not require a reduction in the LTV/TLTV.

Correspondents are responsible for obtaining required mortgage insurance on all loans sold to BB&T which require mortgage insurance and for being knowledgeable of guideline changes and restrictions by the mortgage insurance companies.

3:25 PROPERTY FLIP GUIDELINES

A large increase in property value coupled with a short time period between transactions may indicate that the property is being flipped. Properties targeted for property flips generally include properties that can be acquired at lower prices than other properties in the same neighborhood and often include real estate owned (REO) properties, properties subject to a "short sale", other distressed properties or newly constructed properties where the builder or developer must liquidate housing inventory quickly. Property flips are not inherently illegal and not all transactions involving a rapid purchase and resale are improper.

Some indications of property flip transactions that may be legitimate include:

- Sales of properties by a Government Sponsored Enterprise, state or federally chartered financial institution, mortgage insurer, or federal, state or local government agency.

- Property sales by employers or relocation agencies related to employee relocations.

- Sales of properties that are acquired by the property seller through inheritance, divorce, or as a result of legal settlement or proceeding.

- Sales of properties that have been substantially improved by bona fide and verified renovations since the property was acquired by the property seller in which any increase in sales price over the seller's acquisition cost is representative of the market given the improvements to the home.

- Sales of properties that the property seller acquired at below market value after purchasing as a result of a distress sale (i.e. REO sale, short sale, tax lien sale, bankruptcy trustee's sales, etc.) where any increase in the sales price over the property seller's acquisition cost can be clearly shown to be a result of the difference (if any) in the market's reaction to distress and typical arms-length market sales.

Best Practices for Loans Involving Property Flips or Suspected Property Flips

To assist Lenders in their responsibility to ensure that any Mortgage involving a property flip or suspected property flip meets Freddie Mac's definition of an investment quality Mortgage, Freddie Mac recommends that they consider adopting the following best practices:

Appraisals

- Be particularly selective in choosing appraisers who are familiar with the subject property's market area and are competent to appraise properties involved in complex transactions.
- Use automated valuation models and other collateral risk assessment tools in the origination and pre-funding quality control process to detect fraud and objectively measure the accuracy of the appraisal. Freddie Mac recommends the use of Home Value Explorer (HVE). More information about HVE can be found at http://www.freddiemac.com/hve/
- Make certain that the underwriters or reviewers who evaluate appraisals involving questionable transactions have experience, training and knowledge related to property flip transactions.
- Perform additional due diligence by obtaining either a field or desk review of the appraisal or a second appraisal if the Lender suspects that the increase in sales price/value is unreasonable or unusually large within the context of the property's market.

Miscellaneous Underwriting/Closing/Title Issues

- Perform additional due diligence in reviewing the chain of title of the property including a search of the public land records for any recorded options contracts on the subject property and research any recent title transfer activity. Exercise additional due diligence to reconcile any differences in the owner of record as in the appraisal or any other documentation including the title report.
- Exercise additional due diligence when analyzing sales contracts and other documentation. Carefully analyze sales contracts looking for terms indicating there have been assignments or sale of the seller's interest in a contract or option to acquire the property.
- Draft additional closing instructions designed to prevent title companies and/or attorneys from conducting two or more closings in quick succession without prior approval.
- Analyze and review estimated and final Settlement/Closing Disclosure Statement for unusual payments to parties not having a recorded interest on the property and abnormal real estate commission payments.
- Include effective provisions within Lender's quality control programs designed to detect transactions that are property flips and evaluate such transactions to identify transactions that are improper. Report suspected cases of fraud to appropriate agencies.
- Train all employees and personnel involved in the loan production process and the quality control function on the issues regarding property flips including the characteristics associated with improper property flips.

BB&T Correspondent Lending's policy requires any resale of a property to be no less than **90 days** from the date of the seller's recorded deed to the new buyer's initial application date. Credit and collateral documentation must be dated on or after the application date.

Exceptions may be for the following reasons:

- Resale of property obtained through an inheritance.
- Resale of property acquired as a result of a divorce agreement.
- Resale of property directly from a Federally Chartered Institution or HUD.
- Resale of property from a relocation company.

3:26 MISCELLANEOUS

ULDD Data Entry Requirements – Investment and 2-4 Unit Owner Occupied Properties
The following apply to all Conforming and Super Conforming loans delivered to BB&T Correspondent Lending on or after July 2, 2012 (see Bulletin 2012-41 dated June 21, 2012):

- A completed ***"Fair Market Rent Verification Form"*** providing the gross rent of the subject property for all investment and 2-4 unit owner occupied properties regardless of whether rental income was relied upon for loan approval must be included in all loans delivered to BB&T Correspondent Lending for funding. The "Fair Market Rent Verification Form" is available under the "Forms" section of the BB&T Correspondent Lending Library.

- Documentation must be provided showing how the gross rent figure was determined. The following items are considered acceptable documentation for determining fair market rent:

    - Signed lease stating the monthly rent received for all non-owner occupied units.
    - Bank statements showing monthly rental income for all non-owner occupied units.
    - Signed statement from the borrower certifying the fair market rent for all non-owner occupied units.

Please note: The above information is provided for ULDD data entry compliance purposes. If any income is needed in the qualifying process from an investment or owner occupied 2-4 unit property, BB&T Correspondent Lending income documentation guidelines must be followed.

ESCROWS FOR COMPLETION OF CONSTRUCTION OR REPAIRS
BB&T does not encourage escrowing for completion or repairs; however, if the improvements or repairs cannot be completed for valid reason, i.e. inclement weather or shortages of materials, funds may be escrowed for 1-1/2 times the required amount to complete the work. Examples of typical items which are commonly escrowed include landscaping, wallpaper, minor trim, minor painting or minor repairs. The appraiser or the party completing the work should notify the Correspondent of the amount required to complete or repair the property. The borrower must have sufficient assets verified on deposit if he will be responsible for the repairs. The items not completed may not adversely affect the habitability or structural integrity of the property, and the incomplete items may not exceed 10% of the value of the completed mortgage premises. Mortgage insurance and Title Insurance must not take exception to the escrow and completion normally takes two weeks to thirty days. The escrowed funds are to be held by the closing attorney. The Correspondent is required to submit to BB&T a final inspection with pictures, if applicable, to document that the repairs are completed prior to releasing the escrow funds.

ACREAGE
BB&T does not impose maximum limits on acreage. However, the following guidelines should be considered when reviewing properties with acreage:

- The comparables must be within a reasonable radius, are recent closed sales and have similar land size and valuation.

- Properties with excessive acreage are generally not considered to meet residential definition.

- No income-producing activity or potential activity whatsoever is allowed on the acreage (tree farms, orchards, boarding or training facilities, etc.)

- Land valuation should be typical for residential properties in the market. Adjustments for excess acreage for comparables should be minimal and an explanation provided on the effect these differences have on the subject property's value or marketability.

- Additional residential structures (including homes) or significant/numerous outbuildings are not permitted.

PROPERTY ACCESS

- Access must be generally acceptable to community standards.
- Recorded maintenance agreement is not required. See additional requirements below for title exceptions.
- At least one comparable should exhibit similar access.
- Access to property must have a legally enforceable ingress and egress. This is usually documented on public record as an access easement and must appear on the final title policy.
- Documentation requirements for title exceptions where the subject property is located on a private road:
  - A signed private road maintenance agreement, or
  - For loans receiving an approval through Loan Prospector (LP), a recorded ingress and egress agreement is sufficient.

ZONING

Property should be zoned residential. No commercial zoning permitted.

INCIDENTAL SECOND UNITS

Freddie Mac Appraisal Form 70 is used for properties that have a second unit that is incidental to the overall value and appearance of the subject property, provided rental income is not considered in qualifying. Examples of such properties include a house with a unit above a detached garage or a house with a guest apartment or basement unit. The appraisal must describe the second unit and analyze any effect on the value or marketability of the subject property. Comparables should also include properties with incidental second units.

3:27 PROPERTY TYPES

The following property types must comply with Freddie Mac requirements whether loans are submitted through LP or DU:

- Condominiums
- Leasehold estates
- Restricted units
- PUDs
- Higher Priced Mortgage Loans (HPMLs)

LAND CONTRACTS

Not permitted under **any** loan type or program.

LOG HOMES

Acceptable with the following provisions:

- No excessive acreage.
- Must be typical for the area.
- Comparable should reflect marketability. At least one comparable must be recent closed sale of a log home. Rustic-styled properties will be considered as comparables on a case-by-case basis.

MANUFACTURED HOUSING

Not permitted if the structure meets the following definition:

A structure that is built on a permanent chassis and designed to be used as a dwelling ***affixed*** to a permanent foundation. The unit is built in compliance with the National Manufactured Housing Construction and Safety Standards promulgated by the Department of Housing and Urban Development. Compliance with these standards is evidenced by a “Certification label” permanently affixed to each transportable section of the Manufactured Home.

MIXED-USE PROPERTIES

Follow standard Freddie Mac guidelines.

MODULAR HOMES

Permitted if the structure meets the following definition:

A structure that is built in compliance with the State Building Codes and is built on a steel frame (on-frame) or a wood frame (off-frame). The unit does not have a permanent chassis. It is designed to be used as a dwelling with a permanent foundation. The minimum roof pitch can be 5/12 and the Certification Label (blue & silver label) is located normally in the electrical panel box inside the home.

Additionally, Modular homes must be existing construction with a 100% complete "as is" appraisal provided.

Modular homes that meet these requirements are comparable to stick-built homes and can be appraised as stick-built construction.

3:28 INELIGIBLE TRANSACTIONS

Below is a brief summary of loan transactions that are currently ineligible for financing through BB&T Correspondent Lending. This list is not all inclusive. Refer to specific underwriting guidelines for additional details. Loans with these criteria may be eligible through other channels, including commercial or consumer outlets. This list may be modified at any time based on market conditions or bank credit policy.

AUTOMATED UNDERWRITING

AUS Findings Dated/Changed after Closing
AUS Switching prior to the Note Date (LP to DU or DU to LP)
DU Refer with Caution
LP A-Minus on Investment Property
LP Caution
LP or DU Custom Findings

MANUAL UNDERWRITING

Manual Underwrites

MISCELLANEOUS

Affiliation between buyer, seller and/or developer on investment property
Cash-Out Refinances on Investment Properties
Mortgages subject to temporary buydowns
1031 Exchange Transactions on primary residences or second homes

MORTGAGE INSURANCE

Borrower Paid Mortgage Insurance (BPMI) upfront premiums paid through Lender credit
Fannie Mae Reduced or Lower-Cost MI
Financed Mortgage Insurance for Super Conforming loans
Freddie Mac Custom MI
Insured loans with Declining Renewals
MI Split Premiums (partially financed, partially paid)

PRODUCTS/PROGRAMS

Builder/Developer program for the purchase/refinance of current unsold inventory
Downpayment Assistance Programs (Exception for HOME Now products. See product descriptions for information regarding eligible programs)
DU: My Community, Homestyle or Homepath Products
Energy Efficiency Programs
Foreign Nationals
"High-cost" criteria
Model Home lease back
Non-BB&T Serviced Fannie Mae DU Refi Plus or Freddie Mac Relief Refinance loans
Non-US Citizens or Residents that cannot be AUS approved
Second Mortgages

(Continued next page)

PROPERTY TYPES/RESTRICTIONS

Actual or Potential Income-Producing Property (i.e. Farms, Boarding and Training of horses, etc.)
Condominium Hotels/Condotels
Co-ops
Ineligible States: Alaska & Hawaii
Land Contracts
Lot Loans
Manufactured Homes
Recently Listed Property Restrictions (see Section 3:13 of Conforming Underwriting Guidelines)
Restricted Access properties
Unwarrantable Condos

TITLE/DEED RESTRICTIONS

Irrevocable Trusts
Land Trusts
Loans currently or recently titled in the name of a business, Corporation, S-Corp, Partnership, LLC or any other non-living business entity.
Transfer of ownership from an LLC, Corporation, S-Corp, Partnership, or any other non-living business entity for the purpose of refinancing the loan into the prospective borrower's name (see Section 3:8 of Conforming Underwriting Guidelines).
Private transfer fee covenants that do not benefit the subject property
Unacceptable Title/Deed Restrictions (Marital Rights, Reversion to Seller Clauses, Life Estates)